

FEDERAL MER CALCULATION - INCOME TAX DEDUCTION 2012

INPUTS

Raw Financials

| | | |
|-----------------------|-------|---|
| Revenue | 798.6 | <- run rate revenue, unadjusted for premium tax deductions, refund accruals, etc. |
| Incurred Benefits | 615.1 | <- this amount is defined to meet the new MER definition |
| Prior Period Restates | 0.0 | <- positive means favorable restatements (flows into OI, but <u>not</u> the Incurred Benefits in the numerator) |
| QI | 4.5 | <- this amount is defined to meet the new MER definition |
| Admin | 152.2 | <- this amount is defined to meet the new MER definition |

Other Inputs

| | | |
|---------------------|-------|-----------------------------------|
| Revenue Adjustments | 2.35% | <- premium tax revenue adjustment |
| Revenue Adjustments | 0.23% | <- payroll tax revenue adjustment |
| Revenue Adjustments | 0.02% | <- knox-keene revenue adjustment |
| Income Tax Rate | 35.0% | |
| Minimum Loss Ratio | 80.0% | |

OUTPUTS

| | | |
|------------------|------|---|
| Refund (formula) | -6.8 | <- Converging formula to account for circular aspect of OI and rebate |
| OI (formula) | 33.6 | |
| Refund (floored) | 0.0 | <- Floors rebate at \$0 |
| OI (floored) | 26.9 | <- Recalculates OI with floored rebate |

| | | |
|-----------|------|-----------------------------------|
| Rev Adj 1 | 18.8 | <- premium tax revenue adjustment |
| Rev Adj 2 | 1.8 | <- payroll tax revenue adjustment |
| Rev Adj 3 | 0.2 | <- knox-keene revenue adjustment |
| Rev Adj 4 | 9.4 | <- federal tax revenue adjustment |

| | |
|------------------------|-------|
| Federal MER Pre Refund | 80.6% |
| Federal MER | 80.6% |
| OI | 3.4% |

FEDERAL MER CALCULATION - INCOME TAX DEDUCTION 2011

INPUTS

Raw Financials

| | | |
|-----------------------|-------|---|
| Revenue | 700.3 | <- run rate revenue, unadjusted for premium tax deductions, refund accruals, etc. |
| Incurred Benefits | 532.4 | <- this amount is defined to meet the new MER definition |
| Prior Period Restates | -2.3 | <- positive means favorable restatements (flows into OI, but <u>not</u> the Incurred Benefits in the numerator) |
| QI | 4.0 | <- this amount is defined to meet the new MER definition |
| Admin | 129.9 | <- this amount is defined to meet the new MER definition |

Other Inputs

| | | |
|---------------------|-------|-----------------------------------|
| Revenue Adjustments | 2.35% | <- premium tax revenue adjustment |
| Revenue Adjustments | 0.23% | <- payroll tax revenue adjustment |
| Revenue Adjustments | 0.02% | <- knox-keene revenue adjustment |
| Income Tax Rate | 35.0% | |
| Minimum Loss Ratio | 80.0% | |

OUTPUTS

| | | |
|------------------|------|---|
| Refund (formula) | 0.5 | <- Converging formula to account for circular aspect of OI and rebate |
| OI (formula) | 31.2 | |
| Refund (floored) | 0.5 | <- Floors rebate at \$0 |
| OI (floored) | 31.2 | <- Recalculates OI with floored rebate |

| | | |
|-----------|------|-----------------------------------|
| Rev Adj 1 | 16.5 | <- premium tax revenue adjustment |
| Rev Adj 2 | 1.6 | <- payroll tax revenue adjustment |
| Rev Adj 3 | 0.2 | <- knox-keene revenue adjustment |
| Rev Adj 4 | 10.9 | <- federal tax revenue adjustment |

| | |
|------------------------|-------|
| Federal MER Pre Refund | 79.9% |
| Federal MER | 80.0% |
| OI | 4.5% |

NOTE: THIS MER DOES NOT REFLECT THE 2% OI PLEDGE THAT BLUE SHIELD HAS COMMITTED TO
 - THE PLEDGE ALLOCATED \$17M TO DOI IN 2011
 - POST-PLEDGE THE MLR EXPECTED TO BE **81.2%**